The stagnation of the capital market, which makes the financing of comprehensive investments on the open market difficult now, made special forms of interim-financing necessary for Marshall Plan deliveries. This task the banks and the Nationalbank undertook through their financing techniques. 652 454

Agreement has been reached by the former Ministry of Properties and Economic Planning, the Ministry of Finance, the Nationalbank and credit institutions for the financing in schillings of Marshall Plan deliveries. Inasmuch as outside means (credit) were required, the following categories of credit have been set up with regard to the different currency policies: 652 457 439 452 453

1) Credits for the import of raw materials (wool, cotton, hides, leather, metal, chemicals, etc.);
2) Credits for financing the cost of manufacturing (Umwandlungs kredite);
3) Credits to cover investment needs (Aufbaukredite).

For the first two categories the applicant for credit has to prove that all deliveries will take place within the scope of the Marshall Plan. To cover credits for raw materials provision is made for payments in goods with terms of three months, which may be extended three times to a maximum twelve months. (A special priority was provided originally for the delivery of textile raw materials of any kind and, furthermore, for hides, leather, furs and tannic acid, as long as the accounts were settled prior to June 30, 1949. This measure aimed to spare the buyers of goods losses in interest caused by delays in carrying out the Marshall Plan. As a concession a 60-day delay in payment of the amount in schillings was fixed so that in these special cases the validity of the credits was prolonged up to a maximum of 14 months.) The rate of interest for raw material credits has been fixed at 5 per cent net. The deliveries of semi-manufactures are treated in the same way if they are further processed by Austrian industrial plants. These letters of credit may be refinanced by the Nationalbank.

The covering of manufacturing costs (Warenumarbeitungs- und Umwandlungskredite) is provided for by ninety day drafts which may be extended twice, i.e., a maximum of nine months, if the buyer of goods can prove that these larger deliveries of Marshall Plan goods to be manufactured by him cause a sharp increase in the production so that additional means of production are necessary. The rate of interest is 6.5 per cent net. These drafts may also be refinanced at the Nationalbank.

452 The financing of credits for investments
452 (Aufbaukredite) is likewise provided by different
453 types of drafts (three-months validity) until such
[454] time as definite solutions (consolidation) will be possible in the form of obligations on the money market. The rate of interest is 4.5 per cent net. The examination of such credit applications lies with a commission consisting of representatives of the Federal Chancellory-ERP-Central Bureau, the Austrian Nationalbank, and representatives of those banks which grant the credits. Final approval rests with the "Kreditlenkungskommission," an advisory committee of the Federal Government and created by the federal law of July 3, 1945, to direct public and private credits. Members are nominated by the Federal Government.

453 The following banks are presently handling reconstruction credits: Creditanstalt-Bankverein, Vienna, Innsbruck; the Bank for Carinthia, Klagenfurt; the Bank for Upper Austria and Salzburg, Linz; the Oesterreichische Länderbank AG, the Hypotheken- und Creditinstitut, Vienna; the Bankhaus Schoeller and Co., Vienna; the Arbeiterbank AG, Vienna; the Genossenschaft-Zentralbank AG, Vienna; the Girozentrale der österreichischen Sparkassen, Vienna; the Gewerbe- und Handelsbank AG, Vienna.

439 With the activation of the multilateral
457 balance within the framework of the European Payments
452 Union after October 1, 1950, some changes took place in the financing of Marshall Plan imports. They, however, refer to the mobilization of the so-called "Initial Credit Position" which serve to cover the total deficit against all ERP countries. The carrying out of goods exchange on the basis of direct aid was not influenced by these changes.

To avoid difficulties in financing raw material imports from Marshall Plan countries, and in order not to restrict the potentialities of financing which the importers had been allowed up to this date, the Austrian Nationalbank decided, instead of refinancing goods imported out of the indirect aid (Drawing Rights), to discount ninety-day drafts of the banks. This forms the foundation of the means for financing goods imported from ERP countries. These drafts are issued by credit institutions and are drawn against the importer. The refinancing of these drafts takes place if the payee, in the opinion of the Austrian Nationalbank, possesses sufficient credit standing, and if the imports, as alread

IV. AUSTRIA'S ECONOMIC POSITION IN 1951

452

The following points are characteristic of the economic trends in 1951.

1. In the monetary field: the tendency in the world economy toward forcing reductions in the credit policy; the figures will be rounded-up by an increase of the bank rates toward the end of the year;

652 435 2. In the budgetary field: the approaching end of ERP aid makes it necessary to reduce the price supports still existing;

454 3. In the field of investment policy: a reasonable balance between the investments of the production goods sector and the consumer goods sector is to be prepared; by increasing the offer of goods ready for consumption and export the imbalance in the balance of payments will be overcome as rapidly as possible;

439 4. In the field of foreign trade: the shortage of raw materials and the existing discrepancy between the trade and foreign currency balance (deterioration of the exchange rates) make special laws and measures necessary to promote exports;

435 465 5. In the field of prices and wages policy: certain discrepancies in prices, especially in the agricultural sector, make necessary adequate adjustments as well as improvements of real income of wage earners to the level of higher prices;

6. In the field of production and productivity: a general increase of the capacities and the extent of capacities, is necessary between the social partners and the abolition of burdens which prevent an increase in production. Adequate relations should be created.

A. International Economics and Austria's Peaction

000 A glance at the representative statistics prove that international development proceeded along quite different lines in 1951 than was expected at the beginning of the year. The steep rise of prices for raw materials, especially those of wool, tin, rubber, which started from the beginning of the Korean crisis have created an ever-increasing inflationary tendency.

C. Developments in Credit Volume.

000

The features which influence the volume of payments and credits in an economy come partly from without and partly from within. The impulses, as is clearly seen in 1951, came from the flow of a world-wide inflationary price (wages) development; on the other hand, they were reflected in the necessities of the domestic economy which were expressed by the lines of the investment policy. Every investment ties up the invested capital (credit) until such time as the investment becomes productive.

If one wishes to avoid the danger of stopping investments before they reach the stage at which they are productive (i.e., to leave them unfinished and lose them within the scope of the total economy) then it is necessary to provide the proper means for completing investment projects, even if one could prove that a deceleration of credit expansion would be the correct measure. Moreover, the extension of credits requires, in this connection, the disposal of means for operation and credits for raw materials. All these are elements which make the development of credits (as seen from the standpoint of establishing programs of investments) of a necessary character to a certain extent.

652
452
[454]

The consumption of credits caused by the war, and the lack of an efficient capital market, shifted the center of gravity in financing (excluding investments out of public funds) necessarily to credit channels (see Monatsberichte for January 1952: "Die Wiener Börse im Jahre 1951"). Among the main sources of financing there are (excluding the liquid reserves of the credit institutions themselves) the increasing savings as well as those legal measures which support the techniques of financing (guarantees by the government in financing investment--Aufbaukredit and Absicherung von Exportkrisen, or protections against export crises) and, above all, the counterpart funds for potential refinancings at the Nationalbank. It is quite clear that these refinancings at the bank of money issuance (in Austria, the Nationalbank) can be only limited interim financing which must be consolidated in due time by consumption in the capital market.

If one considers the changes in the volume of total credits in the last year, one observes (on the basis of the report of the Board of Directors of

452 652 the Austrian Nationalbank) an increase of the total amount of credit extended from 10,677.2 million schillings (December 31, 1950) to 15,226.5 million schillings (in the end of December 1951).

The total volume of credit comprised in the single categories of credit is:

	Dec. 31, 1950	Dec. 31, 1951
	(in millions of schillings)	
Credits for raw materials[a]	702.0	804.6
Other commercial credits	7,707.6	10,347.6
Reconstruction credits[b]	2,267.6	4,074.4
TOTAL	10,677.2	15,226.6

[453] a) These are credits which are to finance the import of semi-manufactures (in the first place, raw materials). Promises of refinancing are given by the [457] Nationalbank and by credit institutions which have to guarantee them along with the Nationalbank. They come from direct and indirect ERP aid for carrying out of deliveries.

b) These are check-credits serving the financing of ERP investments out of ECA releases. They are guaranteed by the government according to the law of March 30, 1949 (BGBl.101/49) and by the promise of refinancing by the Nationalbank.

Listed below are the total credits according to their use as of September 30, 1951 (a later listing is not yet available).

	In Millions of Schillings		
Total credit volume	14,415	=	100.0 per cent
Commercial credits	10,908	=	75.7 per cent
ERP credits	3,507	=	24.3 per cent
From these: Industry and Mining	3,500	=	99.8 per cent
Small business	7	=	0.2 per cent

The commercial credits are listed as follows:

Industry and mining	4,342	30.1 per cent
Trade	2,894	19.3 per cent
Small business	934	6.5 per cent
Agriculture	759	5.3 per cent
Länder and municipalities	623	4.3 per cent
Other credit purposes	978	7.6 per cent
Reconstruction of dwellings	378	2.6 per cent

The development of Savings and Checking Accounts is shown in the following table:

	December 1950		November 1951	
	(in millions of schillings)			
Grand Total:				
Savings Accounts	2,198.1		2,320.0	
Checking Accounts	7,271.1	9,469.2	8,817.6	11,137.6
Break-down:				
Joint-Stock Banks				
Savings Accounts	484.5		537.2	
Checking Accounts	4,056.3	4,540.8	4,993.1	5,530.3
Bankers				
Savings Accounts	17.5		23.3	
Checking Accounts	250.9	268.4	207.0	230.3
Savings Offices				
Savings Accounts	965.3		954.7	
Checking Accounts	1,091.7	2,057.0	1,365.9	2,320.6
Credit Associations				
Savings Accounts	488.8		542.6	
Checking Accounts	386.4	875.2	466.6	1,009.2
Other Credit Institutions				
Savings Accounts	242.0		262.2	
Checking Accounts	1,485.8	1,727.8	1,785.0	2,047.2
		9,469.2		11,137.6

Since the beginning of the Marshall Plan up to November 30, 1951, an amount of 12,280.1 million schillings was deposited in the special fund as a schillings equivalent of ERP aid deliveries (U.S. laws 84, 389, 470 and 472). From this amount, 750 million schillings were released for monetary purposes, 6,875 million schillings for financing the industrial investment program, 54.9 million schillings for other purposes, and 579.4 million schillings for the 5 per cent quota reserved for the U.S.--a total of 8,284.3 million schillings. On the key-date an amount of 3,995.8 million schillings remained for further purposes. (These figures do not include the United States aid transactions in the amount of 478.2 million schillings for the period from July 1, 1947, to December 31, 1947, the latter amount referring to purchases.)

652 To evaluate these consequences, the changes
454 in the structure of production are of main interest.
433 According to the Austrian school of national economy, and according to the conception of competent representatives of this science in Sweden and in the Anglo-American area, the main consideration has to be given to changes in the relations between productive and consumptive utilization of capital. As in European countries other than Austria, the production indices of production goods industries increased at a higher scale than those of the consumer goods industries. This economic center of gravity becomes more clear by listing the release of the ERP funds for the total industry. Excluding public investments and means for covering special reconstruction problems, approximately 2 billion schillings out of a total of 2,6 billion schillings flowed into the production goods industry (power plant construction, coal and ore-mining, iron producing industries, etc.) and 607 million schillings into consumer goods industries (textiles, foodstuffs, paper). The distribution of these funds was aimed at affording Austria the opportunity to match the technical and industrial developments in the rest of the world, at least in the field of primary materials and semi-manufactures. The use of a big part of the credit volume, therefore, is fixed by the purposes of the official investment programs which are worked out by the Austrian government in consultation with economic circles and the ECA in Washington. Complementary credit demands (Betriebsmittelkredite) are tied to this credit as a consequence of the extension of capacity and the industries participating directly in these investments.

652 The agreement on qualitative and quanti-
453 tative credit measures reached between the Federal
452 Ministry of Finance and the joint stock banks in the spring of 1951 was followed by an additional agreement of October 10, 1951, paralleling the general international development. This later agreement allowed an increase in the total credit provided or promised by a bank, as of August 31, 1951, under certain conditions. [These are schilling credits in current amount, draft credits regardless whether the drafts remain in the portfolio of the bank or whether they are rediscountable moreover, mortgages and municipal loans (unless they already serve to cover issued mortgages and municipal obligations), as well as requirements against Austrian credit institutions which do not exceed a thirty-days' validity. Not included in the total are reconstruction credits, credits granted for financing exports and

those for financing the harvest. The allowable increase of the total amount of credits (excluding the above-mentioned restrictions) may not exceed 70 per cent of the increase of obligations, i.e., of those means which recently have flowed in. An additional increase exceeding the above-mentioned total of credits is allowed only under the condition that liquid means of the first and second grade, in accordance with the agreement of April 6, 1951, effective August 31, 1951, exceeded the necessary liquid reserves at that same date; otherwise, the credits must be restricted to the rate of prescribed reserves. Other items of the agreement refer to the regulations concerning utilization and eventual sanctions if they do not keep to the reserve rates.] 652 453 452

For the purposes of coordination, the additional agreement stipulated that representatives of the bank must meet at least once a month at the Federal Ministry of Finance or at branches of the Austrian Nationalbank. They meet in the form of regional committees to discuss problems of credit policy to establish directions of restriction credits by their own volition, to discuss their fulfillment on the basis of the material in current figures, and from time to time to provide changes in or additions to those directives. The banks are represented in these credit committees by a six-member committee to which one representative each is delegated from the three nationalized big banks (Handels-und Gewerbebank, Arbeiter-bank and the Bankhaus Schoeller and Co.). A measure of greater importance to currency policy is the decision of the General Council of the Austrian Nationalbank to increase the bank rate from 3 1/2 per cent to 5 per cent as of December 5, 1951. (Corresponding to the change of the bank rate, the rates of interest for deposits were altered. Specifically, it was decided that current account deposits will be handled in the future at the rate of 1 per cent instead of 3/4 per cent used until then. The rate of interest for savings deposits and non-negotiable paper was set at 3 1/2 per cent; if left on deposit for at least six months the rate was 4 per cent, and if left longer than 12 months, 4 1/2 per cent. At the same time the limit for free disposal savings deposits was increased from 3,000 to 5,000 schillings per month.) By so doing, Austria joined a number of countries which already had raised their bank rate since the outbreak of the Korean crisis (Belgium, Denmark, West Germany, Finland, France, Great Britain, Canada, the Netherlands, Sweden, and the United States). For the first time since the end of the war the enforcement of this measure

652 453 452 in currency policy puts a special stress on the discount rate as an instrument of the policy of money-issuing banks. (The last change of bank rate in Austria had been in 1935.)

Considered from a merely economic point of view, the rise of the bank rate means a transfer of the prospects of profitableness from long-term to short-term investments. In this way those endeavors are to be supported which aim at compensating the effects of the present essentially decelerated extension of credits through a greater offer of consumption and export goods in relation to price policy. Moreover, the increase of the bank rate is a proof of the necessity to go back to measures of economic policy which are in conformance with the conditions on the market. The more the bank rate approaches the so-called "natural rate of interest of capital" the less it is necessary to take other methods for the extension of credit for every quantitative and qualitative credit selection contains elements of subjective opinion. Moreover, the limitation of the volume of credits not only constitutes fixation of a certain figure but, under the prevailing economic conditions, of a fixed relation between investments in the production goods industries to that in the consumption goods industries. This relation, which is so decisive for credit policy and, in turn, for the stability of prices, approaches its equivalent value more when the economic function of the rate of interest provides a selection among the various possibilities for the utilization of capital. The field of credit policy is the one in which it is most difficult to replace the market mechanism by typical control measures.

Of course, there can be no doubt that supporting reconstruction by a policy of "cheap money" made sense in many respects--especially when one considers the conditions which prevailed in Austria in early postwar years. With reference to continuing consolidation, one has to try to reach an economic selection even here and to adjust credit to the development that has taken place already.

According to the agreement of April 6, 1951, beginning with January 1, 1952, the banks are required to keep 10 per cent of their obligations in liquid means of first grade. This means that the cash reserves in those banks will rise substantially after that date. In addition, the discussions which were held before the October agreement was reached brought

out that the main proportion of the extension of credits (as a consequence of the first agreement) flowed out of the accounts for financing imports of vital raw materials and of credits for the support of exports. These conditions do not lie within the banks' sphere of influence (not taking into consideration the directives for credits as laid down in the public investment programs). The occasional considerable reserves of the banks, which are tied up with the allocation of foreign currencies, must be taken into consideration. 652 453 452

It is a fact that the individual measures already showed an impact toward the end of the year. According to the statistics on credits and liquid money of November 30, 1951 (i.e., one month after the enforcement of the second agreement) the volume of credit, which is under control, decreased for the first time since 1947 by 30 million schillings--a rather low amount. Even if one considers the financing of credits for exports, and the especially high financing of credits for the sugar beet harvest, there is a total decline in volume by 80 million schillings at a time when a general increase in credit demands could be observed.

There are today two methods of determining the total of the means of payment in an economy at any given date. The Anglo-American method takes into account the total volume of the means of payments in circulation, plus free obligations of the national bank, plus checking account deposits at the commercial banks, minus interim bank obligations (i.e., deposits of credit institutions at the national bank and at credit institutions). The Continental method does not take into consideration the checking account deposits at commercial banks. (Recently, the Anglo-American method has been used in Austria, too.)

If one compares the development of the volume of money (paper money in circulation, plus checking account deposits, plus free deposits not at the banks but at the Nationalbank) in the previous year, an increase is shown from 14,608 million schillings to 17,164 million schillings since the end of December 1950 to the end of October 1951 as against a credit volume of 10,677 million schillings and 14,780 million schillings, respectively. The circulation of paper money rose in this period from 6,349 to 7,326 million schillings, the checking account deposits from 7,271 to 8,939 million schillings. The free deposits of public agencies, which 436 652 453